

Planning by	Reviewed	Performed by	Final review

Client details





Client name: Ndwedwe Local Municipality
Year end: 30 June 2012

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Balance Check		Controlling entity	
		2012	2011
	Statement of financial position balances		
	Cash flow statement is out of balance	Diff	1 -
	Net Surplus per the Statement of Financial Performance does not agree with the NETINC account	Diff	1 (2)
	Opening Accumulated Surplus (deficit) does not match the closing balance for the prior year	Diff	- 66 232 916

Print details

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Ndwedwe Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

General Information

Legal form of entity	Municipality
Members of the council	
Mayor	M Hadebe
Deputy Mayor	BE Blose
Speaker	MJ Zondi
Member of the Executive Committee	NP Ngcobo
Member of the Executive Committee	RM Cele
Member of the Executive Committee	BJ Shoji
Member of the Executive Committee	KW Madlala
Member of the Executive Committee	MP Busane
Grading of local authority	Grade 2 Low Capacity Municipality
Chief Finance Officer (CFO)	SK Khoza
Municipal Manager	T Cibane
Registered Office	Ndwedwe Local Municipality
Physical Address	P100 Road Ndwedwe 4342
Postal Address	P/Bag X 503 Ndwedwe 4342
Auditors	The Auditor General of South Africa
Telephone	032 532 5000
E-mail Address	mm@ndwedwe.gov.za
Fax Number	032 532 5031/5032
Bankers	First National Bank, Verulam Branch

Ndwedwe Local Municipality

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Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 26, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 15 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal manager: T Cibane
31 August 2012

Ndwedwe Local Municipality

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Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
ASSETS			
Current Assets			
Trade and receivables from exchange transactions	2	1 226 749	1 233 395
VAT receivable	3	829 900	2 412 394
Consumer debtors	4	3 641 131	898 806
Cash and cash equivalents	5	21 370 889	3 610 006
		27 068 669	8 154 601
Non-Current Assets			
Property, plant and equipment	6	112 443 801	94 704 270
Intangible assets	7	1 443 032	1 544 347
		113 886 833	96 248 617
Total Assets		140 955 502	104 403 217
LIABILITIES			
Current Liabilities			
Finance lease liability	8	1 349 751	1 156 128
Trade and other payables from exchange transactions	9	3 424 081	1 203 599
Unspent conditional grants and receipts	10	12 263 605	3 610 006
Provisions	11	1 326 514	1 189 591
		18 363 951	7 159 324
Non-Current Liabilities			
Finance lease liability	8	1 269 675	2 529 527
Provisions	11	309 606	309 606
		1 579 281	2 839 133
Total Liabilities		19 943 232	9 998 457
Net assets		121 012 270	94 404 760
NET ASSETS			
Accumulated surplus		121 012 270	94 404 760

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	12	4 121 416	2 660 689
Rental of facilities and equipment		47 904	69 117
Public contributions and donations		-	120 000
Government grants & subsidies	13	76 686 901	80 414 582
Other income		3 810 221	207 775
Interest earned - outstanding receivables		202 197	50 383
Profit on sale of assets		-	166 149
Interest received - investment		1 349 973	1 064 009
Total Revenue		86 218 612	84 752 704
Expenditure			
Employee related costs	14	(19 598 510)	(18 155 943)
Remuneration of councillors	15	(7 895 598)	(7 172 912)
Depreciation and amortisation expense	16	(5 103 685)	(4 077 246)
Finance costs	17	(486 814)	(588 021)
Repairs and maintenance		(4 163 911)	(2 811 872)
Contracted services	18	(3 072 496)	(2 810 435)
General expenses	19	(19 290 088)	(19 830 196)
Provisions		-	(1 134 234)
Total Expenditure		(59 611 102)	(56 580 859)
Surplus for the year		26 607 510	28 171 845

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	66 232 916	66 232 916
Changes in net assets		
Surplus for the year	28 171 845	28 171 845
Total changes	28 171 845	28 171 845
Balance at 01 July 2011	94 404 760	94 404 760
Changes in net assets		
Surplus for the year to date	26 607 510	26 607 510
Total changes	26 607 510	26 607 510
Balance at 30 June 2012	121 012 270	121 012 270

Ndwedwe Local Municipality

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Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		91 789 191	81 241 202
Interest received		1 349 973	1 064 009
		<u>93 139 164</u>	<u>82 305 211</u>
Payments			
Suppliers		(51 083 336)	(65 189 560)
Finance costs		(486 814)	(588 021)
		<u>(51 570 150)</u>	<u>(65 777 581)</u>
Net cash flows from operating activities	21	<u>41 569 014</u>	<u>16 527 630</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(22 741 901)	(32 352 371)
Proceeds from sale of property, plant and equipment	6	-	201 154
Purchase of other intangible assets	7	-	(13 655)
Net cash flows from investing activities		<u>(22 741 901)</u>	<u>(32 164 871)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other financial liabilities		(1 066 229)	38 124
Net increase/(decrease) in cash and cash equivalents		<u>17 760 884</u>	<u>(15 599 117)</u>
Cash and cash equivalents at the beginning of the year		3 610 006	19 209 121
Cash and cash equivalents at the end of the year	5	<u>21 370 890</u>	<u>3 610 006</u>

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1. BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting - issued March 2005

GRAP 20 Related party disclosures - issued March 2005

GRAP 25 Employee benefits - issued February 2008

GRAP 105 Transfer of functions between entities under common control - issued November 2007

GRAP 106 Transfer of functions between entities not under common control - issued July 2008

GRAP 107 Mergers - Issued November 2010

1.4 PROPERTY, PLANT AND EQUIPMENT

1.4.1. INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.4 Property, plant and equipment (continued)

1.4.2. SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.4.3. DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Infrastructure	
• Roads and Paving	15 years
• Economic Development	20 years
• Sewerage	20 years
• Electricity	20 years
Community	
• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years
Other	
• Buildings	30 years
• Informal Markets	30 years
• Building Improvements	20 years
• Heavy and mobile plant	10 years
• Furniture and fittings	7 years
• Vehicles	5 years
• Bins and containers	5 years
• Plant - general	5 years
• Office Equipment	3-5 years
• Other items of Plant and equipment	3-5 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.4.4. DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.5 INTANGIBLE ASSETS

1.5.1. INITIAL RECOGNITION

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.5 Intangible assets (continued)

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.5.2. SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

The cost of an intangible asset is depreciated over the useful life where that life is finite. Where the useful is indefinite, the asset is not depreciated but is subject to impairment tests.

1.5.3. AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software 5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.5.4. DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 FINANCIAL INSTRUMENTS

INITIAL RECOGNITION AND MEASUREMENT

Financial instruments are recognised initially recognised at fair value.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.6 FINANCIAL INSTRUMENTS (continued)

SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

TRADE AND OTHER PAYABLES

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.7 LEASES

MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.7 LEASES (continued)

MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

1.8 VAT

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

1.9 IMPAIRMENT OF ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.9 IMPAIRMENT OF ASSETS (continued)

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 RETIREMENT BENEFITS

PENSION OBLIGATIONS

The municipality and its employees contribute to two pension funds that cater for the majority of the staff. The KZN Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

DEFINED CONTRIBUTION PLANS

The municipality provides retirement benefits for its employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year it becomes payable. The defined contribution funds, which are administered on a provincial basis, are actuarially valued triennially according to the Discounted Cash Flow and Discontinuance Method Approach.

1.11 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.11 PROVISIONS (continued)

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;

- the principal locations affected;

- the location, function, and approximate number of employees who will be compensated for terminating their services;

- the expenditures that will be undertaken; and

- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.12 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.13 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases. Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.17 REVENUE

REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Accounting Policies

1.17 REVENUE (continued)

GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.18 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Trade and receivables from exchange transactions		
Accrued revenue	37 565	17 683
Other debtors	111 057	137 585
Distribution account -KDM	1 078 127	1 078 127
	1 226 749	1 233 395
3. VAT receivable		
Net VAT Receivable	829 900	2 412 394
4. Consumer debtors		
Gross balances		
Rates	4 629 072	1 702 859
Less: Provision for debt impairment		
Rates	(987 941)	(804 054)
Net balance		
Rates	3 641 131	898 806
Rates and Other		
Current (0 -30 days)	244 696	184 499
31 - 60 days	278 029	148 228
61 - 90 days	198 773	112 445
91 - 120 days	201 406	(433 269)
121 - 365 days	565 833	1 690 956
> 365 days	3 140 335	-
	4 629 072	1 702 859

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
4. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers and Other		
Current (0 -30 days)	38 268	26 107
31 - 60 days	41 734	23 188
61 - 90 days	37 763	25 875
91 - 120 days	43 350	24 909
121 - 365 days	109 277	517 536
>365 days	835 315	-
	1 105 707	617 615
Industrial/ commercial		
Current (0 -30 days)	125 361	144 893
31 - 60 days	121 023	112 862
61 - 90 days	86 821	118 544
91 - 120 days	85 656	114 363
121 - 365 days	243 923	983 429
> 365 days	1 030 079	-
	1 692 863	1 474 091
National and provincial government		
Current (0 -30 days)	81 067	13 499
31 - 60 days	115 272	12 177
61 - 90 days	74 190	(31 973)
91 - 120 days	72 400	(572 543)
121 - 365 days	212 634	189 993
> 365 days	1 274 941	-
	1 830 504	(388 847)
Total		
Current (0 -30 days)	244 696	184 499
31 - 60 days	278 029	148 228
61 - 90 days	198 773	122 445
91 - 120 days	201 406	(433 269)
121 - 365 days	565 833	1 680 956
> 365 days	3 140 335	-
	4 629 072	1 702 859
Less: Provision for debt impairment	(987 941)	(804 054)
	3 641 131	898 805
Reconciliation of debt impairment provision		
Balance at beginning of the year	(804 054)	-
Contributions to provision	(183 887)	(804 054)
	(987 941)	(804 054)
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 000	1 000
Bank balances	2 255 695	829 870
Short-term deposits	19 114 194	2 779 136
	21 370 889	3 610 006

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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5. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Main Bank Account - 62027922930 - First National Bank - Cheque Account	2 255 695	829 870	2 255 695	829 870
Short term Deposit - First National Bank	7 913 674	1 807 637	7 913 674	1 807 637
Short term Deposit - ABSA	3 731 801	898 108	3 731 801	898 108
Short term Deposit - Investec	7 471 682	73 391	7 471 682	73 391
Total	21 372 852	3 609 006	21 372 852	3 609 006

6. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 806 602	(1 068 694)	12 737 908	13 535 691	(379 160)	13 156 533
Motor vehicles	404 474	(183 101)	221 373	404 474	(183 101)	221 373
Infrastructure	63 092 286	(3 378 002)	59 714 284	54 449 689	(3 378 002)	51 071 687
Community	38 736 365	(2 151 064)	36 585 301	28 536 141	(2 151 064)	26 385 077
Other property, plant and equipment	9 370 237	(6 185 302)	3 184 935	10 054 900	(6 185 302)	3 869 598
Total	125 409 964	(12 966 163)	112 443 801	106 980 895	(12 276 629)	94 704 270

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	13 156 535	270 908	(689 535)	12 737 908
Motor vehicles	221 373	-	-	221 373
Infrastructure	51 071 687	11 637 432	(2 994 835)	59 714 284
Community	26 385 077	10 200 224	-	36 585 301
Other property, plant and equipment	3 869 598	633 337	(1 318 000)	3 184 935
Total	94 704 270	22 741 901	(5 002 370)	112 443 801

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Work-in-Progress	Disposals	Depreciation	Total
Land	13 415 058	120 635	-	-	(379 158)	13 156 535
Motor vehicles	404 474	-	-	-	(183 101)	221 373
Infrastructure	33 544 899	15 019 347	5 885 443	-	(3 378 002)	51 071 687
Community	18 580 603	8 470 661	1 484 877	-	(2 151 064)	26 385 077
Other property, plant and equipment	9 632 868	1 371 406	-	(949 374)	(6 185 302)	3 869 598
Total	75 577 903	24 982 052	7 370 319	(949 374)	(12 276 627)	94 704 270

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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7. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 544 347	(101 315)	1 443 032	1 606 159	(61 812)	1 544 347

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	1 544 347	(101 315)	1 443 032

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	1 592 504	13 655	(61 812)	1 544 347

8. Finance lease liability

Non-current liabilities	1 269 675	2 529 527
Current liabilities	1 349 751	1 156 128
	2 619 426	3 685 655

The capitalised lease liability is secured over the item of infrastructure leased over a period of five years at interest rate of 11% which is fixed for five year period of the financial lease agreement

9. Trade and other payables from exchange transactions

Trade payables	1 906 642	825 384
Retentions	1 517 439	378 215
	3 424 081	1 203 599

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Department of Provincial and Local Government-FMG	938 722	311 092
Department of Traditional and Local Government Affairs- MAP	125 885	125 885
National Government- Equitable Share - Access Roads	-	409 079
NDPG - Building	3 316 684	61 724
Land Use Management System	60 661	60 661
MFMA	50 324	50 324
MPRA Grant	296 200	323 519
Municipal Development Planning	41 492	41 492
Audit Committee and Internal Control	-	30 803
CDW/LED Grant	22 503	22 503
Valuation Roll	-	177 509
Nhlangakazi Project	169 116	169 116
Technical Support MIIPS	10 000	10 000
Synergistic Partnership/Amakhosi	53 690	62 090
Bhamshela Nodal Development	2 384 861	661 175
Libary Cybercadet	285 327	74 845
Kwaloswe Tourism Project	207 529	207 529
Governance and Administration Expert	34 536	618 270
Housing Grant	33 475	192 390
Access Roads - MIG Grant	3 888 050	-
KZN Sports and Recreation	344 550	-
	12 263 605	3 610 006

11. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Long-service awards	309 606	-	309 606
Leave pay provision	1 189 590	136 924	1 326 514
	1 499 196	136 924	1 636 120
Non-current liabilities		309 606	309 606
Current liabilities		1 326 514	1 189 591
		1 636 120	1 499 197

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Property rates		
Rates received		
Assessment rates	5 450 302	7 337 346
Less: Income forgone	(1 328 886)	(4 676 657)
	4 121 416	2 660 689
Valuations		
Residential	14 172 000	14 172 000
Commercial	230 000	230 000
State/PSI	59 924 000	59 924 000
Agriculture	419 058 000	419 058 000
Institutional	168 816 000	168 816 000
Special Purposes	1 470 000	1 470 000
Agriculture (Residential/Commercial)	17 070 000	17 070 000
	680 740 000	680 740 000

The municipal valuations and property rates was implemented with effect 1 July 2009 in terms of Municipal Rates Act.

Valuations on land and buildings are performed every four years. The first valuation roll came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes on individual property values due to alterations, consolidations, subdivisions and new township development. Various rates in the Rand were applied in accordance with categories determined in terms of the Municipal Property Rates Act. Rebates applicable were applied in line with the municipal property rates policy. Rebates are levied on a monthly basis in terms of municipal rates policy and interest is charged on outstanding amounts as determined by the municipality in terms of rates policy and tariff of charges.

13. Government grants and subsidies

Equitable share	50 708 000	43 443 273
Municipal Infrastructure Grant and Other Capital Grants	13 942 964	21 839 846
Department of Co-operative Governance and Traditional Affairs KZN	-	1 000 000
Department of Finance:National Treasury	3 354 965	2 911 835
Grant Subsidy- iLembe District Municipality	8 680 972	11 219 629
	76 686 901	80 414 582

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
14. Employee related costs		
Basic	15 077 537	13 599 119
Contributions to UIF, Medical and Pension Funds	2 830 317	2 710 854
Travel, motor car and other allowances	1 180 549	1 052 206
Housing benefits and allowances	152 592	184 811
Overtime and relief payments	357 515	435 638
Bonus	-	173 315
	19 598 510	18 155 943
Municipal Manager		
Annual remuneration	665 454	671 351
Car allowance	182 265	120 000
Performance bonuses	-	62 784
Contributions to UIF, Medical and Pension Funds	1 709	1 497
Housing allowance	10 000	60 000
	859 428	915 632
Chief Finance Officer		
Annual remuneration	512 024	480 224
Car allowance	60 000	60 000
Performance bonuses	-	45 004
Contributions to UIF, Medical and Pension Funds	77 098	71 521
	649 122	656 749
Infrastructure Services		
Annual remuneration	353 086	443 684
Car allowance	103 068	129 528
Performance bonuses	-	31 774
Contributions to UIF, Medical and Pension Funds	43 938	54 974
	500 092	659 960
Corporate Services		
Annual remuneration	500 103	392 102
Car allowance	147 248	116 438
Contributions to UIF, Medical and Pension Funds	1 497	1 248
	648 848	509 788
Economic and Community Services		
Annual remuneration	447 033	421 947
Car allowance	131 327	123 101
Performance bonuses	-	33 753
Contributions to UIF, Medical and Pension Funds	70 761	66 696
	649 121	645 497

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. Remuneration of councillors		
Mayor	376 436	519 167
Deputy Executive Mayor	147 840	192 645
Speaker	273 084	254 470
Councillors	4 117 393	3 666 211
Councillors' pension contribution	747 514	483 088
Travelling allowance	748 174	716 352
Medical aid contributions	114 598	174 271
Executive councillors	921 699	760 337
Telephone allowance	448 860	406 373
	7 895 598	7 172 912

In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the council which is included with other expenditure in the Statement of Financial Performance.

The Mayor has the use of a Council owned vehicle for official duties.

The Mayor has a full-time bodyguard and driver.

16. Depreciation and amortisation

Property, plant and equipment	5 103 685	4 077 246
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17. Finance costs

Non-current borrowings	486 814	588 021
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18. Contracted services

Security services	751 450	2 810 435
Mayoral VIP services	2 321 046	2 810 435
	3 072 496	5 620 870

19. General expenses

Auditors remuneration	1 591 247	1 345 046
Computer expenses	6 425	-
Insurance	246 905	226 116
Fuel and oil	650 027	747 957
Electricity and water	494 291	323 829
Free basic services	130 954	113 350
Provision for leave pay	429 565	-
Conditional grants	4 807 332	3 563 081
Other expenses	10 933 342	13 510 817
	19 290 088	19 830 196

20. Taxation

Municipalities are exempt from paying tax in terms of section 10(1)(a) of the Income Tax Act

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Cash generated from operations		
Surplus	26 607 510	28 171 845
Adjustments for:		
Depreciation and amortisation	5 103 685	4 077 246
Loss on sale of assets	-	(166 149)
Prior period adjustment	-	(709 584)
Contributions to provisions	136 924	1 134 232
Changes in working capital:		
Trade and receivables from exchange transactions	6 646	(1 127 018)
Consumer debtors	(2 742 325)	(620 828)
Trade and other payables from exchange transactions	2 220 481	(6 860 444)
VAT	1 582 494	(728 639)
Unspent conditional grants and receipts	8 653 599	(6 643 031)
	41 569 014	16 527 630
22. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	3 888 050	4 456 164
• Community	3 316 684	916 920
• Land and Buildings	5 058 872	8 521 386
	12 263 606	13 894 470
Approved but not yet contracted for		
• Infrastructure	23 268 482	22 544 000
• Community	840 000	2 530 000
• Other property, plant and equipment	280 000	550 000
• Land and Buildings	9 572 752	21 900 000
	33 961 234	47 524 000
Operating leases		
Minimum lease payments due		
- within one year	-	127 129
- in second to fifth year inclusive	-	85 871
	-	213 000
23. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	131 746
Current year subscription / fee	173 613	-
Amount paid - current year	(173 613)	(131 746)
	-	-
Audit fees		
Current year fee	867 902	908 873
Amount paid - in respect of current year	(867 902)	(908 873)
	-	-

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
23. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE and UIF		
Current year fee	2 298 225	3 491 228
Amount paid - in respect of current year	(2 298 225)	(3 491 228)
	-	-
Pension and Medical Aid Deductions		
Current year fee	2 230 193	2 409 453
Amount paid - in respect of current year	(2 230 193)	(2 409 453)
	-	-
24. Utilisation of Long-term liabilities reconciliation		
Used to finance property, plant and equipment - at cost	1 349 751	1 156 128
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.		
25. Unauthorised expenditure		
The municipality incurred an over expenditure on grants which contravened the definition of unauthorised expenditure in terms of the MFMA.	-	3 791 177

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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26. Employee benefit obligations

Defined contribution plan

The Council provides retirement benefits to employees by contributing to pension and provident funds. Membership of either pension or provident fund is compulsory for all permanent employees. The personnel are members of the following pension funds:

Kwazulu-natal Joint municipal provident fund

Actuarial valuation as at 31 March 2010.

Results of valuation

The Fund self-insures its risk benefits in excess of the full benefit. It therefore maintains a Risk Reserve Account as a measure of protection against volatility in claims experience. The amount of R12, 779,000 is required to be held in the Risk Reserve Account. The market value of the assets exceeded the Liabilities by R17,651,000 or about 2,34% of the Share Account at the valuation date. At the previous valuation date there was a deficit. The Investment Reserve Account far exceeds the deficit, so that the Fund is financially sound as at the valuation date.

Benefits:

Pension age	65 years
Earliest retirement age	58 years

: Full benefit - Initial transfer plus member's contributions plus employer's contributions for full benefits plus investment earnings and bonuses.

: Member's portion of full benefits - Initial transfer plus members contributions plus local authorities contributions for full benefits plus interim, special and final bonuses.

: Benefit on retirement after earliest retirement age or pension age - Full benefit.

: Benefit on retirement because of ill health - Full benefit

: Benefit on death in service - Full benefit plus 0,7% of annual pensionable salary for each month of potential service to a maximum of 2.1 years salary.

Contributions:

: Members may choose to contribute at a rate of 5%, 7% or 9,25% of their pensionable emoluments in terms of regulation 14(a)

: Participating employers contribute at a rate of 1,95 times of the rate of members contribution in terms of regulation 17(1)(b)

: Of the contribution by the Employer, 3.75% of pensionable emoluments is applied to meeting cost of the risk benefits and expenses

Benchmark: The benchmark asset allocation determined as being appropriate for the fund, which takes cognisance of membership and liability profile, is stated below

Domestic Investments:	753 288 000
International Investments	52 730 000
Risk Reserve Account	12 779 000
Unallocated Assets (deficit)	17 651 000
Membership	8 837

Natal Joint Pension Fund:

Natal Joint Municipal Pension Fund: (Retirement)

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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26. Employee benefit obligations (continued) Interim actuarial valuation

An interim actuarial valuation was performed on 31 March 2010.

The market value of the Fund's assets was R 1,835,990 at 31 March 2010.

The DCF method of valuation has been applied for the purposes of determining the Fund's financial condition.

The funding level in respect of contributory members has deteriorated slightly reducing from 79,5% to 79.0%. The primary reason for this is that salary increases were higher than expected.

On the DCF funding level has improved and the overall shortfall has decreased.

The valuation disclosed a surplus of R114.3 million in respect of pensioners and a shortfall of R243.2 million in respect of members.

The regulations of the fund have been amended with effect from 1 July 2004, so that the Committee of Management is able to levy a separate surcharge on local authorities which grant excessive salary increases, thereby causing a financial strain on the Fund to the detriment of other stakeholders.

The employers are no longer permitting members to join the Fund, so that it is effectively closed to new members. This means that the average age will increase over time which, in turn, means that the required rate of contribution will also increase.

Thus, once the surcharge ceases, the underlying rate of contribution will not be sufficient to meet the cost of the benefits. It is necessary to set aside a reserve to hold assets equal to the expected shortfall. For this reason a "Contribution Reserve" is held equal to the present value of the shortfall in terms of the Financial Services Board's Circular PF117 for the 5 years to 2015 when it is expected that the surcharge will cease.

Benefits:

: Members Contributions - 7% of Pensionable salaries plus a surcharge of 1,65 % of pensionable salary in respect of members who were members at 30 June 2002

: Pension age 65 Years

: Final average Salary - Average annual pensionable salaries during the last year of service.

: Pension on retirement at pension age - 2.1% of final average emoluments per year of continuous service.

: Lump sum on retirement at pension age - 5.5% of final average emoluments per year of service.

: Pension on retirement because of ill-health (minimum ten years continuous service) - Pension as for retirement at pension age

: Lump sum on retirement because of ill-health (minimum 10 years continuous service) - Lump sum as for retirement at pension age

: Lump sum on retirement because of ill health (less than ten years continuous service) - The greater of the resignation benefit or twice the members contributions

: Surviving Spouses pension on death in service - 1,05% of final average emoluments per year of continuous service that the member would have had at the pension age.

: Surviving Spouses pension on death of pensioner - 1,05% (0,77% in the case of a pensioner who retired before 1 July 1999) of final average emoluments per year of continuous service.

: Lump sum on death in service - Annual pensionable emoluments

: Withdrawal - members contribution plus 5/12% for each month of continuous service (the addition is approximately equal to compound interest at 10% a year) and increased by 5% for each complete year of service up to a maximum of 20 years.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended 30 June 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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26. Employee benefit obligations (continued)

Benchmark Investments

Domestic	1 563 444 000
International	272 546 000
Membership	4 008